

BP Can Improve Rosneft's Corporate Culture

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Hostility to BP's Arctic alliance is understandable but misplaced. The \$18 billion share swap between BP and Rosneft announced on Friday in fact provides the best opportunity to help Russia develop its resources while ensuring that this happens according to the best international environmental and governance standards.

The risks of the deal have been well documented by its detractors. Days after a U.S. congressional report into the Deepwater Horizon spill, BP, a company with a recent record of industrial accidents that have caused environmental damage in the Gulf of Mexico and Alaska, signed a deal in the Arctic where the environmental risks and technical challenges are greater than any in the history of the oil industry. The deal is with Russia, a country that has, by its own admission, fallen short on environmental protection.

The benefits of the alliance are likely to outweigh the risks and demonstrate how collaboration between multinational companies and state-owned entities in emerging

markets can be a force for positive economic, social and even geopolitical development.

Deputy Prime Minister and Rosneft chairman Igor Sechin suggested that BP's "knowledge and experience" gained from the Gulf of Mexico was one of the attractions of choosing BP as a partner. Indeed, if any company can be entrusted to develop the delicate Arctic ecosystem safely, it would be one that has paid the highest price for its past mistakes in terms of billions of dollars of lost revenue, litigation and settlement cases, lost reputation and rolling heads. BP CEO Robert Dudley, referring to the Gulf of Mexico disaster, said, "It has shaken the company to the core." Rosneft seems to be open to learn from the experience of its joint venture partner.

In making an assessment of the benefits and risks ahead, it is instructive to look at the record of other extractive joint ventures in Russia. BP's existing operation, TNK-BP, seems to have managed its environmental risks well. There has been special attention to the impact of exploration and drilling, for example, in environmentally protected areas such as the wetlands in Khanty-Mansiisk in West Siberia, one of TNK-BP's major sites and a region under the protection of the 1971 Ramsar Wetlands Convention.

Similarly, Shell's joint venture with Gazprom, Sakhalin Energy, has taken on board the environmental concerns of international nongovernmental organizations in a way that would have been unlikely had Gazprom worked on the project alone.

While the challenges in the Arctic are on a much different scale, these examples show that a responsible environmental approach is possible in Russia.

The benefits of joint ventures go well beyond the environmental. They are already having a major impact on governance in the Russian industry. TNK-BP, in its early days under the leadership of Dudley — then its CEO — made a huge effort to create a culture of good corporate governance, and to a large extent it succeeded. Whether in health and safety, environment, financial transparency or anti-corruption, there is a culture of compliance that is demonstrated in TNK-BP being one of the most open and best examples of good corporate management in Russia. There is a good chance that through ventures such as BP's Arctic alliance, best international practices may now be transferred to the traditionally opaque world of state companies. Rather than posing a threat to the global environment or the energy security of the West, BP's new venture with Rosneft offers the opportunity for a significant change of corporate culture. This will help spread international business standards deeper into the Russian economy than any amount of isolationist talk and saber rattling.

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